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SUBJECT: NIGERIA LARGEST MARKET FOR U.S. WHEAT/RICE
PRODUCTION INCREASES MODESTLY

1. SUMMARY: As the June 2005 - May 2006 Marketing Year comes to conclusion, Nigeria is presumed to be the number one market in the world for U.S. Wheat ahead of traditional front-runners; Japan and Mexico. For the fourth consecutive year Nigeria is the world's leading importer of U.S. hard red winter wheat. Nigeria's wheat imports this year are estimated at 3.8 million tons, up from 3.0 million tons last year. U.S. Wheat has maintained a market share of between 85-90 percent over the past five years. The sustained increase in wheat imports is fueled by rapid growth in bread, pasta and biscuit consumption and cross-border trade with neighboring countries. Meaningful domestic rice production is up yet still lags behind demand by two million tons annually. The GON's protective duty of 100 percent on rice imports is encouraging large-scale smuggling. GON efforts to liberalize import tariffs within the framework of the ECOWAS Common External Tariffs. Many agricultural imports remain banned. End summary

AMERICAN WHEAT NUMBER ONE IN NIGERIA

2. Nigeria's overall wheat imports in the 2005/06 marketing year may reach a record 3.8 million tons, with the U.S. holding the dominant market share of roughly 3.3 million tons (close to 90 percent). The GON imposed a wheat import ban from 1986-1992. The growth in wheat imports since the ban's lifting in 1992 has been phenomenal. Since 1995, per capita wheat consumption tripled from six kilograms to nearly 20 kilograms in 2005. Wheat imports are increasing due to greater consumption of bread, pasta, biscuit products and informal cross-border exports. The growth has also been helped by a relatively stable exchange rate, competitive wheat prices, high crude oil prices, modest economic growth, and the steady price increases for other food staples such as cassava.

3. New mills are being established, while existing operators are making sizeable capital investments in new milling capacity to meet future demand. The entrance of several aggressive new millers in the past five years has generated intense competition among millers. Bakery operations are being modernized and expanded to satisfy growing demand especially for bread. Should the demand for flour by biscuit, pasta and noodle manufacturers is increasing rapidly as they attempt to fill the supply void created by the GON's import ban on these products. Given current trends in the market, industry sources predict U.S. Wheat exports will exceed 5 million tons within the next three years. Canada and Argentina are our principal competitors in this market.

4. The GON has directed millers to include ten percent cassava in wheat flour by July 1, 2006 or face closure. Although millers are prepared to commence this policy, at present industry grade cassava flour is not readily available in the country. Given the enormous resources required to increase cassava production and upgrade processing facilities, it is unlikely flour millers will meet the deadline. In the meantime, millers have responded to the challenge by jointly establishing a 500-million naira (\$3.9 million) empowerment fund to encourage cassava growers and processors. Industry sources report the cassava requirement would not affect growth in wheat imports in marketing year 2006/07.

GON RICE POLICY AS SOME EFFECT

15. Domestic rice production continues to trend upward due largely to incentives under the Presidential Initiative on Rice. The initiative is the cornerstone GON's efforts to achieve self-sufficiency in rice production. Also, farmers are protected by the 100 percent duty on rice imports. Despite the high duty, rice imports continue to rise because local output is inadequate to match the growth in overall consumer demand for rice. The high duty on rice continue to encourage large-scale cross border smuggling.

16. Nigeria's aggregate grain production in marketing year 2006/07 is forecast to increase five percent. The forecast is based on the timely arrival of rains in the grain belt. The GON is promoting increased food production in the country through a number of new initiatives, namely the National Special Program for Food Security, Presidential Initiative on Rice and the Fadama II project (irrigation farming).

17. Although figures are not readily available, a significant quantity of grain is exported informally in cross-border trade with neighboring countries, especially the Niger republic. A spot visit to the Dawanou international grains market in northern commercial city of Kano revealed a minimum of thirty tons is of grains and other food items leave the Kano market every week for the Niger Republic.

18. Field visits to northern grain production zones revealed that despite some benefits from these initiatives, Nigerian farmers continue to face the dual problems of low productivity due to lack of basic farm inputs and the absence of adequate price support mechanisms. Scarcity and high prices continue to limit fertilizer use. The average retail price of a 50-kilogram bag of NPK increased to 3,500 naira (\$27) in 2005, up from an average of 3,000 naira (\$23) a year earlier. The absence of a buyer of last resort leaves farmers at the mercy of Nigeria's highly volatile market environment. The ratio of extension agents to farmers in the country is estimated at 1: 3000, thus making the transfer of technology to farmers difficult.
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